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Fixing a Persistent Problem: Canada's Regional Pockets of Unemployment

By Colin Busby

- Canada's Employment Insurance program pays weekly benefits to the unemployed that vary in generosity across regions. The number of hours of work needed to qualify for benefits and the duration of benefits depend on the regional unemployment rate.
- While the variable entrance requirements help deliver more benefits to seasonal workers, the mechanism spreads the generosity of benefits to all workers in a region, raising the costs of the program and hindering labour market adjustment. Periodic map redraws of EI regions contribute to this problem.
- Among other reforms, the EI program should be changed to: provide lump-sum moving bonuses financed through costs savings from changes to the EI program; target aid to specific high-need workers; or allow for the short-term portability of regional EI benefits.

National average unemployment figures, while low, continue to mask important regional differences.[1] Pockets of unemployment persist, particularly in the Eastern provinces, showing that the benefits of a strong national labour market are not equally shared across regions.

Over time, technological change, shifting needs for certain skill sets, and changing global demand for Canadian exports highlight the need for flexibility in our labour markets. Workers may need to regularly upgrade their skills and relocate to where jobs are available. Failure to respond to continuous change will leave Canada in a growing geographic divide, with acute labour shortages in some regions and excess supply persisting in others.[2]

Ontario represents the fulcrum of this imbalance. To the west, employment rates are high, and in some areas the demand for labour is greatly outstripping supply – unemployment bottoms out at 1.9 percent in southwestern Manitoba. Towards the Atlantic, unemployment reaches a national high of 15.7 percent in northern Newfoundland.

The imbalance in regional labour markets underscores a misallocation of workers that reduces overall economic output. Plus, in regions with high unemployment, if individuals' repeated efforts to find work go unfulfilled, it can have adverse affects on personal health. To minimize this imbalance and improve Canada's overall adaptability to economic

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1 This *e-brief* updates the previous work of Guillemette (2006, 2007), highlighting widely observed regional differences in unemployment rates across Canada (Orr 2006, Akyeampong 2007).

2 Wannell (2008) discusses the difficulty of finding workers in specific regions with labour shortages, notably Alberta, for the enumeration of Census 2006.

change, policy changes are needed to reduce economic barriers to mobility; specifically, those posed by the federal Employment Insurance (EI) program. In what follows, I highlight the extent of the labour market imbalance as well as the role of the EI program in mobility incentives.

Unemployment Rate Dispersion

So far in 2008, Canada's labour market has had its share of ups and downs by industry and region. The national unemployment rate, however, remains near a modern low, at 6.1 percent. To examine the level of adjustment to changing economic conditions, we measure differences among regional unemployment rates in relation to the national rate – the dispersion of unemployment. Theoretically speaking, if labour is in short supply in some regions and over supply in others, the unemployed should move to regions where labour-market opportunities are better and dispersion measures should fall along with unemployment.

In contrast, dispersion has increased as the national unemployment measure has fallen (Figure 1).[3] Further, a recent sustained period of low national unemployment has seen little to no reduction in dispersion.

The Sources of Persistent Regional Variations

In a scenario with limited costs and barriers to migration, economies with high levels of regional unemployment should theoretically see these levels drop over time as workers move to where the jobs are in other regions. For Canada, however, regional unemployment persistently resembles historical rates (Figure 2). This suggests that the costs of moving outweigh the benefits, and barriers to mobility are significant enough to permit high levels of unemployment to take root.

An individual's decision to move is complex. Family concerns must be weighed with personal ones, and the overall social costs and benefits all play a part in the decision-making process. A variety of non-economic and economic factors, such as the size of the province, language, general and individual labour market conditions, influence individual decisions to move (Finnie 2000).[4]

In Canada, the economic hurdles to mobility are significant. In this, government policy – specifically the EI program – plays an important role. Both the entrance requirements to, and benefit entitlements from, the federal EI program are linked to regional unemployment rates. As unemployment rises within an EI region, provisions mean that an unemployed individual's ability to obtain higher benefits for a longer duration increases. Consequently, since any potential insured benefits are sacrificed with relocation, unemployed persons face a disincentive to look elsewhere for employment (Audas and MacDonald 2003).

Undesirable Effects of Unemployment

Pockets of high unemployment also have social costs. They can create enormous stress on the unemployed and foster divisions within communities. As local job prospects wane, the possibility of becoming unemployed for spells longer than a few months increases. The time spent searching for employment without success is considered a critical indicator of health and well-being – the results on this front are troubling (Figure 3). While lower than 2001 results, on average, the 2006 Census finds that long-term unemployment rates remain significant and concentrated in eastern regions.

Labour mobility is particularly important during periods of economic change. An unresponsive labour force, for instance, dampens the competitive pressures on businesses, further slowing the process of adjustment. By contrast, a highly mobile workforce helps to smooth the reallocation process of business inputs and reduce regional differences in income and unemployment. Hence, the negative effects of an immobile labour force on the economy, as well as those on personal health, are significant.

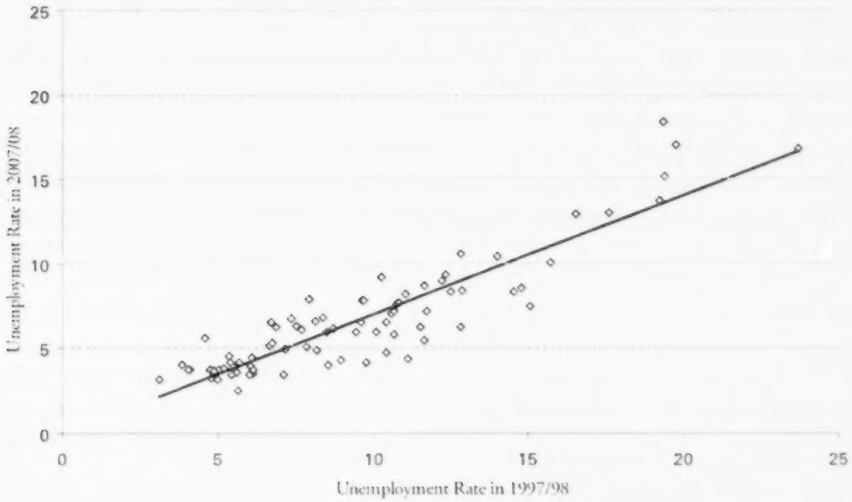
3 The dispersion measure uses the same methodology in Guillemette (2006), where the coefficient of variation of unemployment rates, defined as the standard deviation or regional unemployment rates divided by the regional average, serves as the benchmark measure. Monthly average unemployment rates are seasonally adjusted using the US Census Bureau's X-12 ARIMA procedure.

4 Non-economic factors may also influence an individual's labour market outcome. See Vaillancourt et al. (2007) for an examination of different labour market outcomes associated with language skills in Quebec.

Figure 1. High Dispersion Despite Low Unemployment

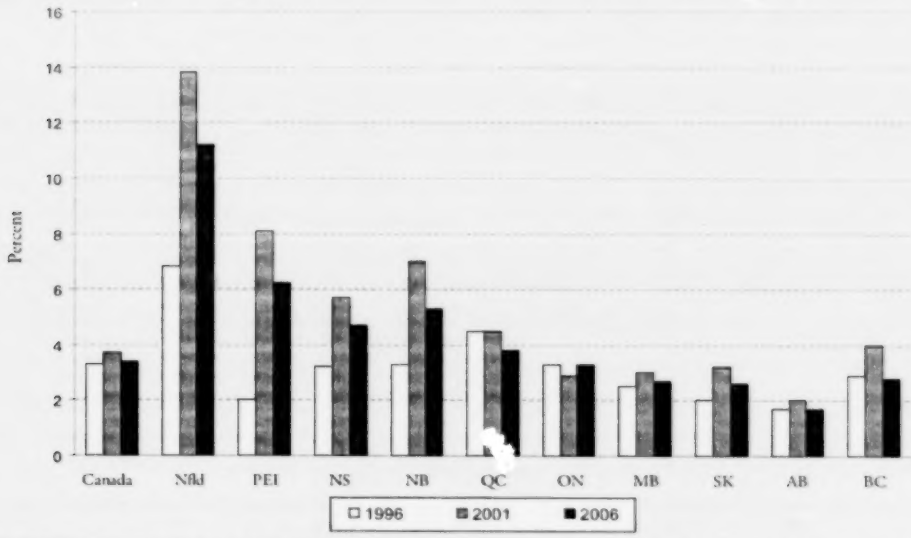
Note: The dispersion (EI) measure uses administrative unemployment rate data by Employment Insurance region, and the dispersion (LFS) measure uses unemployment rate data from by Labour Force Survey region. The vertical bars on the graph represent the time when map redraws came into effect.
Sources: Human Resources and Social Development Canada; CANSIM Table no. 282-0054; and author's calculations.

Figure 2. Persistence in Regional Unemployment



Note: Graphic represents the annual average for the period of October to September in the economic regions in the Labour Force Survey. The regression slope coefficient (0.71) is significant at the 1 percent level.
Sources: CANSIM Table no. 282-0054.

Figure 3. Long-term Unemployment* Rates in the East Remain High



*Defined as number of persons aged 15 and older who spent the previous year (i.e. 1995, 2000, and 2005) up to the taking of the Census without employment.
Sources: Census 1996, 2001, and 2006.

Reducing the Disincentives for Mobility – EI Program Reform

The federal practice of redrawing EI regions every five years has important consequences for mobility. The regional map is revised according to changing labour market conditions with the aim of keeping them comparable across an administrative region.[5] Over time, unemployment regions are redrawn so that high areas of unemployment are combined. By extension, other regions are left with lower unemployment rates after each redraw.

Comparing the measure of dispersion by EI regions with the measure by Labour Force Survey (LFS) regions in Figure 1 gives insight into how EI map redraws can contribute to high regional unemployment. The current EI region map was set in July 2000, preceded by map redraws in July 1996, November 1990, etc.[6]

Redrawing the EI map to bring together like regions will increase program entitlements for people who subsequently fall within the boundary of a high unemployment region.[7] Consequently, residents of high unemployment regions will face larger sacrifices with relocation. Map redraws heighten the program's regional differentiation, encourage reliance for seasonal workers,

5 See subsection 18(2) of the *Employment Insurance Regulations*, which requires EI regional boundaries be reviewed every five years to ensure that they reflect current labour market conditions and geographic representation of communities across Canada.

6 There are 48 EI regions from 1987 to 1990, 62 regions from 1990 to 1996, 54 regions from 1996 to 2000, and 58 regions from 2000 until today. Maps of the geographic classifications for EI economic regions and those of the 73 Labour Force Survey regions are found at http://www.chass.utoronto.ca/datalib/other/referenc.htm.

7 The EI program has made notable exceptions in the case of regions where a subgroup of seasonal workers has been adversely affected by map redraws. For example, seasonal workers in Bas-St-Laurent-Cote Nord and Madawaska-Charlotte regions were, under new 2000 regional unemployment rates, unable to qualify for benefits that would last until work recommenced. In response, the government has developed a special provision (a "boundary phase-in measure" (Gray 2006, 4)) for residents in these regions, allowing them to continue to use the 1996 EI geographic borders. At the time of writing this transitional measure remains.

and contribute to persistent regional differences in entitlement (and employment) rather than a gradual decline over time. Notably, the July 2000 redraw causes the EI dispersion measure to rise and remain above the LFS measure.

Policy should instead aim to reduce the disincentives to relocate. Reform is needed to:

- provide lump-sum moving bonuses financed through costs savings from changes to the EI program;
- shorten the benefit entitlement periods and lengthen qualification schedules for young repeat users;
- target aid to specific high-need workers to avoid spreading the generosity of the program to all workers in the region;
- extend pilot-projects that loosen access criteria and extend benefits in high-unemployment regions to low-unemployment regions for proper evaluation of labour market effects and incentives to work (Gray 2006); and
- end the periodic redrawing of EI region maps.

In addition, since EI benefits are not portable to other provinces, another potential reform could allow for the portability of regionally linked benefits in the short-term, followed by a phasing-out period.

Conclusion

Though the national unemployment rate is low, regional dispersion remains high. For both economic and health reasons, high levels of regionally concentrated unemployment are undesirable. Regionally linked EI benefits influence relocation decisions, contributing to unbalanced labour markets and slowing the pace of regional convergence in wages, prices, and productivity across Canada.

While for some people receiving EI benefits gives them resources they need for job search and relocation, for others the relative generosity of the program creates a disincentive to relocate. Large and persistent unemployment, mostly in eastern regions, highlights the continuing need for EI program reform. And, linking entrance and benefits requirements to regions which are constantly being redrawn allows disincentives against mobility to persist. The challenge is to ensure that the financial burden of moving is low and disincentives are reduced. Given large numbers of job vacancies in the West, there is no better time for reform.

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